

STATEMENT OF RANKING MEMBER SPENCER BACHUS

HOUSE FINANCIAL SERVICES COMMITTEE

"U.S. INTERESTS IN REFORM OF CHINA'S FINANCIAL SERVICES SECTOR"

WEDNESDAY, JUNE 6, 2006

Mr. Chairman, this is as important a hearing as we have had in this Committee this year, and I commend you for scheduling it. When it comes to the issue of U.S. access to China's financial services sector, the stakes could not be higher - for both countries.

Just recently, Treasury Secretary Paulson, Chinese officials and U.S. and Chinese business leaders - including some at the witness table today - concluded the second meeting of the Strategic Economic Dialogue (SED) here last month. Participants made solid progress in a number of important areas.

Unfortunately, last month's session did little to address the underlying causes of the growing trade imbalance between our countries: China's unwillingness to embrace market reforms and currency liberalization. So, as we move forward, we need to acknowledge that a dialogue, though important, simply isn't enough.

Our trade deficit with China has reached historic levels, ballooning from \$83 billion in 2000 to over \$200 billion in 2006. This is both emblematic of and one of the main contributors to the overall U. S. current account deficit, now totaling nearly seven percent of the U. S. gross domestic product. Tangible results to address this deficit are needed in a relatively short timeframe.

At the end of the 20th Century, the United States faced similar challenges related to the decade-long surge in Japanese exports and subsequent capital investment in many U. S. companies. Then-Treasury Secretary Rubin's decision to negotiate a financial services agreement with Japan in 1995 now offers us a blueprint for a concrete, measurable step that would allow for market conditions to determine exchange rates and drive the structural changes necessary within China to create domestic growth led by consumer demand.

In my opinion, the quickest way for China to strengthen its own domestic financial markets is to bring in foreign financial service experts with the advanced talents, technology, and know-how it would take China decades to develop on its own.

By providing the world-class financial products and services that China's citizens and businesses need to save, invest, insure against risk, and consume at higher levels, U.S. financial firms can help activate the Chinese consumer and entrepreneur, better mobilize China's vast savings, create and protect wealth, and provide the operational means for greater currency flexibility. The result would be what every U.S. manufacturer and service provider wants--an unleashed Asian tiger hungry for American products.

That is why, Mr. Chairman, I have called upon the U.S. and China to complete negotiations for a Financial Services Agreement by the end of this year. Such an agreement would establish commitments to allow complete market access in the banking, securities and insurance sectors, ensuring a level of non-discriminatory regulation necessary to allow U.S. financial firms to transform China's financial sector into a modern success story.

Two centuries ago, Napoleon is said to have likened China to a sleeping giant who, once awakened, would "astonish the world." That the giant is now awake is obvious. Now we need to determine how and on what terms we want to engage it. With America's clear leadership in the global financial services marketplace facing energetic competition from Europe and Asia, tapping into the Chinese financial services market offers us remarkable opportunities we cannot afford to ignore.

Chairman Frank, thanks again for convening this important hearing. Let me conclude by thanking our witnesses for being here today.

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